Unmasking The \$1.5T Tax Hike In Senate Democrats' FY14 Budget

When the Budget Committee minority staff began analyzing Chairman Patty Murray's FY 2014 budget last week, they were shocked to discover that the plan called for not \$975 billion in tax increases—the amount that the majority proudly and openly claimed—but instead \$1.5 trillion in tax hikes.

How is this possible? The answer lies in an arcane budget tool known as a "deficit neutral reserve fund" (DNRF). Because it is not possible to legislate on a budget resolution, DNRFs were created to facilitate the passage of subsequent legislation. They do this by removing future barriers in the form of budget points of order.

To understand how DNRFs work, consider an example: A Senator wants to introduce a piece of legislation to increase funding for border security. Even if that bill's spending is completely offset with new tax revenue, the legislation could still be subject to a budget point of order. (Importantly, if the new spending is offset with spending reductions elsewhere, the bill would not be subject to that point of order.) So if the Senator knows during consideration of a budget resolution that he will be introducing border security legislation at a later time, he can offer a DNRF to preclude the possibility of that point of order being raised when his bill is brought up.

Returning to the Senate Democrat budget, the majority asserts that their plan "includes budget reconciliation instructions... that [instruct] the Senate Finance Committee to report legislation that will reduce the deficit by \$975 billion through changes to the tax code alone." (This amount includes certain refundable tax credits; in other words, tax credits sent to individuals who do not owe income tax. CBO classifies this as spending, so the net tax increase in the reconciliation instructions totals \$923 billion.)

In a separate place in their policy document, Senate Democrats propose to "[replace] sequestration using the following equal mix of responsible spending cuts and... \$480 billion in new revenue..." Finally, the majority also proposes a \$100 billion "jobs and infrastructure" package that "is fully paid for by eliminating loopholes and cutting wasteful spending in the tax code..."

It was initially assumed that this additional \$580 billion was simply a detailed breakdown of a portion of the \$923 billion in tax increases called for through reconciliation, but then Budget Committee analysts found two separate deficit neutral reserve funds (Sec. 301 and Sec. 308) that exactly match those respective amounts. Recall that the sole purpose of a DNRF is to pave the way for legislation that increases both taxes and spending. If the authors of the Murray budget intended for the \$580 billion to be a subset of the \$923 billion, they would have had no need to include these two DNRFs. In other words, **it must be assumed that the \$580 billion is** *in addition to* **the tax hikes called for in the reconciliation instructions**.

In total, therefore, the Senate Democrat budget clearly calls for \$1.503 trillion (\$923 billion plus \$580 billion) in tax increases. The budget's authors have protested this calculation, but if they wish to clear up the confusion, surely they would agree to amend their resolution to remove these two DNRFs and remove any possibility that the funds will be used for additional future tax increases.

¹ The 302(f) point of order prohibits consideration of any measure that exceeds that the authorizing committee's allocation that is typically established in the budget resolution.